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CITY OF BATESVILLE

FINANCIAL STATEMENT

SEPTEMBER 30, 2003

William H. Polk & Co.

Certified Public Accountant

A Professional Association

105 Public Square

Batesville, MS 38606

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AUDITOR, AS SET FORTH IN THE MUNICIPAL COMPLIANCE
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INDEPENDENT AUDITORS' REPORT

Honorable Mayor and Board of Aldermen
City of Batesville, Mississippi

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batesville, Mississippi as of and for the year ended September 30, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Batesville, Mississippi's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Batesville, Mississippi, as of September 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, during the year ended September 30, 2003.

The management’s discussion and analysis and budgetary comparison information on pages 3 through 11 and 47 through 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2004, on our consideration of City of Batesville, Mississippi’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wm. H. Polk & Co.

March 10, 2004

CITY OF BATESVILLE, MISSISSIPPI
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

This Discussion and Analysis of the City of Batesville's financial performance provides an overall review of the City's financial activities for the year ended September 30, 2003. The intent of this discussion and analysis is to look at the City's financial performance as a whole. Readers should also review the basic financial statements to enhance their understanding of the City's financial performance.

FINANCIAL HIGHLIGHTS

Total assets increased approximately \$1,106,000 or 2.2% from 2002.

Total liabilities increased approximately \$1,153,000 or 5.9% from 2002.

Total net assets remained virtually unchanged as a result of this year's operations.

The City's governmental expenses exceeded City revenues by approximately \$583,000 before grants and transfers; and the City's business-type expenses exceeded related revenues by approximately \$150,000 before transfers.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net assets and the Statement of Activities (on pages 12 and 14) provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements start on page 16. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

Reporting the City as a Whole

Our analysis of the City as a whole begins on page 5. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and the changes in those assets. This change in assets is important because it tells the reader whether, for the City as a whole, the financial position of the City has improved or diminished. However, in evaluating the overall position of the City, non-financial information such as changes in the City's tax base and the condition of City capital assets will also need to be evaluated.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

Governmental activities – Most of the City's basic services are reported here, including the police, fire, public works, and parks departments, and general administration. Property taxes, franchise fees, and state and federal grants finance most of these activities.

Business-type activities – The City charges a fee to customers to help it cover all or most of the cost of certain services it provides. The City's water and sewer system and gas department are reported here.

Reporting the City's Most Significant Funds

The fund financial statements begin on page 15 and provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by the State law and by bond covenants. However, the City Board establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

Governmental funds – Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation adjacent to the fund financial statements.

Proprietary funds – When the City charges customers for the services it provides these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statement but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

(Table 1)
Net Assets
2003

	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 9,507,108	\$ 8,081,215	\$ 17,588,323
Capital assets	<u>14,052,009</u>	<u>19,370,739</u>	<u>33,422,748</u>
Total assets	<u>23,559,117</u>	<u>27,451,954</u>	<u>51,011,071</u>
Long-term debt	(4,240,628)	(11,931,713)	(16,172,341)
Other liabilities	<u>(1,218,304)</u>	<u>(3,190,788)</u>	<u>(4,409,092)</u>
Total liabilities	<u>(5,458,932)</u>	<u>(15,122,501)</u>	<u>(20,581,433)</u>
Net assets:			
Invested in capital assets, net of debt	9,446,681	10,360,129	19,806,810
Restricted	3,626,434	30,000	3,656,434
Unrestricted	<u>5,027,070</u>	<u>1,939,324</u>	<u>6,966,394</u>
Total net assets	<u>\$ 18,100,185</u>	<u>\$ 12,329,453</u>	<u>\$ 30,429,638</u>

The City's total assets increased \$1.1 million during 2003, with essentially all being in business-type activities. The major changes were a \$3.2 million increase in capital assets and a \$2.3 million decrease in cash.

The City's total liabilities increased \$1.2 million, primarily in business-type accounts payables associated with the construction costs of the Civic Center building.

The City's total net assets remained essentially unchanged, with the minor increase in governmental activities offset by the decrease in business-type activities.

Table 2 shows the Changes in Net Assets for the year ended September 30, 2003. Since this is the first year the City has prepared financial statements following GASB Statement 34, revenue and expense comparisons to 2002 are not available. In future years, when prior-year information is available, a comparative analysis of government-wide data will be presented.

(Table 2)
Changes in Net Assets
2003

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues:			
Charges for services	\$ 495,020	\$ 5,893,091	\$ 6,388,111
Federal and state grants	685,869	0	685,869
General Revenues:			
Property taxes	1,899,280	0	1,899,280
Other taxes and other	<u>4,470,474</u>	<u>51,186</u>	<u>4,521,660</u>
Total revenues	<u>7,550,643</u>	<u>5,944,277</u>	<u>13,494,920</u>
Program expenses:			
General government	882,463	0	882,463
Public safety	3,601,590	0	3,601,590
Streets	1,425,440	0	1,425,440
Other	1,211,666	0	1,211,666
Interest on long-term debt	280,233	0	280,233
Water and sewer department	0	2,571,291	2,571,291
Gas department	0	3,054,116	3,054,116
Other business-type	<u>0</u>	<u>514,885</u>	<u>514,885</u>
Total expenses	<u>7,401,392</u>	<u>6,140,292</u>	<u>13,541,684</u>
Increase (decrease) in net assets	<u>\$ 149,251</u>	<u>\$ (196,015)</u>	<u>\$ (46,764)</u>

The City's governmental activities continue to be funded by sources other than property taxes, which made up only 25% of the total revenues. The major expense activities were public safety and streets, which comprise 49% and 19% respectively of total expenses. The City is committed to providing the basic services that our residents expect.

While business-type activities are accounted for similarly to businesses and are primarily supported by user charges, the City attempts to keep these charges as low as possible.

THE CITY'S FUNDS

As the City completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of \$4,558,798, which is slightly below last year's total of \$5,218,597. The primary reasons for the decrease are the result of increased expenditures by the tourism fund and capital projects funds.

General Fund Budgeting Highlights

The City's budget is prepared according to Mississippi law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. One of the most significant budgeted funds is the General Fund.

During the course of 2003, the City amended its general fund budget. All recommendations for a budget change come from the department heads to the City Clerk for review before going to the whole Board for ordinance enactment on the change. The City does not allow budget changes that modify line items within departments without board approval. With the General Fund supporting many of our major activities such as our police and fire departments, as well as most legislative and executive activities, the General Fund is monitored closely looking for possible revenue shortfalls or over spending by individual departments. For the General Fund, original budgeted revenues were \$7,029,100; final budget amounts were \$9,785,400; and actual revenue collections were \$7,345,900. The major reason for the shortage was the failure to obtain \$1.2 million in grants, \$599,000 in transfers, and \$658,000 in additional debt. The General Fund's original budgeted expenditures of \$7,805,800 were amended to \$10,260,120, and resulted in actual expenditures of \$7,167,460. The major reasons for the shortage was the failure to transfer \$1,142,000 and the general reduction of expenses by the various departments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2003, the City had \$33.4 million invested in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads, bridges, and water, sewer, and gas lines. (See Table 3 below). This amount represents a net increase (including additions and deductions) of just under \$4 million, or 13%, over last year.

(Table 3)
Capital Assets at Year-end
(Net of Depreciation)

	Governmental <u>Activities</u>	Business-type <u>Activities</u>	<u>Total</u>
Land	\$ 1,115,933	\$ 758,500	\$ 1,874,433
Buildings and improvements	2,811,177	59,752	2,870,929
Equipment	1,575,358	155,286	1,730,644
Infrastructure	7,823,604	14,144,691	21,968,295
Construction in progress	<u>725,937</u>	<u>4,252,510</u>	<u>4,978,447</u>
Total	<u>\$ 14,052,009</u>	<u>\$ 19,370,739</u>	<u>\$ 33,422,748</u>

The City of Batesville during the fiscal year of 2003-04 has been an exciting year of growth as shown in the following highlights:

Continued growth in the Tri-Lakes area of the city through the completion of 2 main and 4 connector roads, water, sewer and gas lines to Wal-Mart, Tri-Lakes Hospital, Mental Health Crises Center, a strip mall and Backyard Burgers. Approximately \$924,000 was spent on this project during 2003. CDBG funds, tourism tax dollars, city funds and private funds were combined to complete this project.

One of the most exciting projects is the building of our long awaited Civic Center in the Tri-Lakes area with \$3.4 million spent in 2003. This project is being built at a total cost of approximately \$8,500,000 with a loan through the Mississippi Development Bank of \$7,250,000 and the balance through tourism tax dollars. Since there were no water, sewer or gas lines in this section of the Tri-lakes area, these service lines were installed by the designated city departments with the expenses paid with city funds. The building should be completed in spring or early summer of 2004.

The civic center, being in a new area, created the need to develop Civic Center Drive. When bids for the road were received, the low bid was \$856,000. March 2004 is the planned completion of this new five lane road.

Lowe's Home Improvement has come to town, which calls for another new road. The location for this new development is across from our Civic Center area. The \$700,000 cost is financed through tax increment financing and rural impact funds. The completion date is expected in early Spring of 2004.

Moving from the new Tri-Lakes area to Johnson Subdivision, a residential area of our city, a need for new water and sewer lines was discovered. Since this area was developed after World War II, these lines were very much in need of replacement, making the repaving of the street necessary also. A contract in the amount of \$360,000 was awarded and we were able to obtain a CAP loan in the amount of \$290,000 to assist in the financing.

Acting as a pass through agent, we are working with the Patton Lane Community Center to refurbish a building that was the old Patton Lane School Band Hall. This contract is for \$329,000 with funds being received through MDA and CDBG. The self-help grant awarded for this project requires the grant recipients to obtain donations of equipment, supplies, money, and labor for use in the completion of the project. Completion date for the project is Spring 2004.

Rebuilding a downtown city park is also in the plans for Batesville. After a renovation approximately 25 years ago, our downtown area was in need of a facelift. Subsequent to 2003, our city was fortunate to receive a grant for \$210,000 to assist with the \$300,000 cost. Any additional financial help needed will come through donations of shrubs, benches, bricks, money, etc from business owners in the area, civic clubs and citizens interested in this preservation of our downtown area. This project is hoped to be completed by the Fall of 2004.

Debt

At year-end, the City had \$17,324,603 in bonds and notes outstanding versus \$17,947,425 last year – a decrease of \$622,822.

(Table 4)
Outstanding Debt at Year-end

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
General obligation bonds (backed by the City)	\$ 2,665,000	\$ 0	\$ 2,665,000
Revenue bonds and notes	<u>1,847,981</u>	<u>12,811,622</u>	<u>14,659,603</u>
Totals	<u>\$ 4,512,981</u>	<u>\$ 12,811,622</u>	<u>\$ 17,324,603</u>

New debt consisted of \$69,000 in capital leases of police cars, and \$295,000 in CAP loans for water and sewer projects. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

Not included above but reported as long-term debt in the financial statements is the accumulated employee leave time that would be paid as employees take leave or retire. Under GAAP reporting, this liability must be reported as a compensated absence at year-end, due to contract language to the effect that the employee has "earned" this compensation.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials considered many factors when setting the fiscal-year 2004 budget, tax rates, and fees that will be charged for the business-type activities. Property tax millage rates were not raised for 2004. While water rates were raised by 4% to cover rising upkeep of the system, sewer and garbage rates were unchanged. Also, while natural gas rates fluctuate with gas costs, the margin rate was not increased.

The total 2004 budget without transfers was:

Receipts	\$ 19,557,200
Expenditures	\$(27,938,410)

The primary reason for the unusual relationship of excess expenditures is the budgeted spending of debt and tax proceeds that were actually received in prior years.

Contacting the City's Finance Department

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Clerk at 103 College Street, Batesville, MS 38606.

CITY OF BATESVILLE
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2003

	Governmental Activities	Business-type Activities	Total
Assets			
Cash	\$ 827,162	\$ 936,379	\$ 1,763,541
Temporary cash investments	510,000	220,500	730,500
Accounts receivable	0	193,538	193,538
Current portion of loans receivables, (Note 4)	190,916	0	190,916
Intergovernmental receivables, (Note 4)	992,623	0	992,623
Property and franchise tax receivable	2,113,126	0	2,113,126
Inventory	0	490,209	490,209
Prepaid items	99,779	37,905	137,684
Due from other funds, (Note 8)	(257,272)	257,272	0
Restricted assets, (Note 5):			
Cash	610,687	1,038,960	1,649,647
Temporary cash investments	2,133,000	4,651,500	6,784,500
Loans receivable, non-current, (Note 4)	2,287,087	0	2,287,087
Deferred bond issue costs	0	254,952	254,952
Capital assets, net of accumulated depreciation, (Note 6)	<u>14,052,009</u>	<u>19,370,739</u>	<u>33,422,748</u>
 Total assets	 <u>23,559,117</u>	 <u>27,451,954</u>	 <u>51,011,071</u>
 Liabilities			
Accounts payable and accrued expenses	775,321	456,847	1,232,168
Current portion of long-term debt, (Note 7)	395,351	698,072	1,093,423
Current portion of deferred refunding loss	0	(17,036)	(17,036)
Liabilities payable from restricted assets:			
Accounts payable and accrued expenses	11,764	1,543,405	1,555,169
Builder compliance bonds	35,868	0	35,868
Current portion of long-term debt, (Note 7)	0	175,000	175,000
Customer deposits	0	334,500	334,500
Non-current liabilities:			
Bonds payable, (Note 7)	2,385,000	1,350,000	3,735,000
Deferred refunding loss	0	(51,764)	(51,764)
Notes and leases payable, (Note 7)	1,732,630	10,588,550	12,321,180
Compensated absences	105,943	44,927	150,870
Deferred revenue	<u>17,055</u>	<u>0</u>	<u>17,055</u>
 Total liabilities	 <u>5,458,932</u>	 <u>15,122,501</u>	 <u>20,581,433</u>

Continued

CITY OF BATESVILLE
STATEMENT OF NET ASSETS - continued
SEPTEMBER 30, 2003

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Net Assets			
Invested in capital assets, net of of related debt	\$ 9,446,681	\$ 10,360,129	\$ 19,806,810
Restricted for:			
Economic development	1,496,934	0	1,496,934
Tourism development	1,858,401	0	1,858,401
Debt service	180,591	30,000	210,591
Capital improvements	42,267	0	42,267
Other	48,241	0	48,241
Unrestricted	<u>5,027,070</u>	<u>1,939,324</u>	<u>6,966,394</u>
 Total net assets	 <u>\$ 18,100,185</u>	 <u>\$ 12,329,453</u>	 <u>\$ 30,429,638</u>

CITY OF BATESVILLE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2003

FUNCTIONS/PROGRAMS	Expenses	Charges for Services	Program Revenues	
			Operating Grants and Contributions	Capital Grants and Contributions
Government activities:				
General government	\$ 882,463	\$ 183,597	\$ 78,740	\$ 0
City court	142,620	1,628	0	0
Police	2,606,460	183,131	0	91,266
Fire	852,510	7,917	13,073	92,543
Streets	1,425,440	0	91,423	55,860
Sanitation	164,044	131	0	10,373
Library	255,857	3,163	0	51,048
Parks	466,875	31,376	0	201,543
Code	172,037	84,077	0	0
Economic development	152,853	0	0	0
Interest on long-term debt	280,233	0	0	0
Total government activities	<u>7,401,392</u>	<u>495,020</u>	<u>183,236</u>	<u>502,633</u>
Business-type activities:				
Water	1,044,642	1,290,441	0	0
Sewer	1,526,649	926,822	0	0
Gas	3,054,116	3,476,529	0	0
Civic Center building	293,006	0	0	0
Solid waste	221,879	199,299	0	0
Total business-type activities	<u>6,140,292</u>	<u>5,893,091</u>	<u>0</u>	<u>0</u>
Total primary government	<u>\$ 13,541,684</u>	<u>\$ 6,388,111</u>	<u>\$ 183,236</u>	<u>\$ 502,633</u>

General revenues:

- Property taxes
- Sales and tourism taxes
- Franchise taxes
- Other taxes and other
- Unrestricted interest income
- (Loss) on disposition of capital assets
- Transfers, net

Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

See accompanying notes to financial statements.

Net (Expense) Revenue and Change in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (620,126)	\$ 0	\$ (620,126)
(140,992)	0	(140,992)
(2,332,063)	0	(2,332,063)
(738,977)	0	(738,977)
(1,278,157)	0	(1,278,157)
(153,540)	0	(153,540)
(201,646)	0	(201,646)
(233,956)	0	(233,956)
(87,960)	0	(87,960)
(152,853)	0	(152,853)
<u>(280,233)</u>	<u>0</u>	<u>(280,233)</u>
<u>(6,220,503)</u>	<u>0</u>	<u>(6,220,503)</u>
0	245,799	245,799
0	(599,827)	(599,827)
0	422,413	422,413
0	(293,006)	(293,006)
<u>0</u>	<u>(22,580)</u>	<u>(22,580)</u>
<u>0</u>	<u>(247,201)</u>	<u>(247,201)</u>
<u>(6,220,503)</u>	<u>(247,201)</u>	<u>(6,467,704)</u>
1,899,280	0	1,899,280
3,737,836	0	3,737,836
194,397	0	194,397
275,432	0	275,432
236,373	97,421	333,794
(19,799)	0	(19,799)
<u>46,235</u>	<u>(46,235)</u>	<u>0</u>
<u>6,369,754</u>	<u>51,186</u>	<u>6,420,940</u>
149,251	(196,015)	(46,764)
<u>17,950,934</u>	<u>12,525,468</u>	<u>30,476,402</u>
<u>\$ 18,100,185</u>	<u>\$ 12,329,453</u>	<u>\$ 30,429,638</u>

CITY OF BATESVILLE
BALANCE SHEET – GOVERNMENTAL FUNDS
SEPTEMBER 30, 2003

	General Fund	Post Office Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 579,461	\$ 53,982	\$ 185,263	\$ 818,706
Temporary cash investments	510,000	0	0	510,000
Current portion of loans receivable	0	63,335	107,860	171,195
Property and franchise tax receivable	2,024,526	0	88,600	2,113,126
Due (to) from governmental funds	48,319	0	(48,319)	0
Due (to) from proprietary funds	(249,975)	0	(7,297)	(257,272)
Intergovernmental receivables	601,351	0	340,275	941,626
Restricted cash	48,069	0	562,618	610,687
Restricted temporary cash investments	186,000	0	1,947,000	2,133,000
Non-current loans receivable	<u>0</u>	<u>1,667,040</u>	<u>488,653</u>	<u>2,155,693</u>
 Total assets	 <u>\$ 3,747,751</u>	 <u>\$ 1,784,357</u>	 <u>\$ 3,664,653</u>	 <u>\$ 9,196,761</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued expenses	\$ 564,024	\$ 4,015	\$ 145,472	\$ 713,511
Deferred revenues	2,015,333	1,730,375	131,112	3,876,820
Liabilities payable from restricted assets:				
Accounts payable and accrued expenses	0	0	11,764	11,764
Builder compliance bonds held	<u>35,868</u>	<u>0</u>	<u>0</u>	<u>35,868</u>
 Total liabilities	 <u>2,615,225</u>	 <u>1,734,390</u>	 <u>288,348</u>	 <u>4,637,963</u>
FUND BALANCES				
Reserved for economic development	0	0	3,111,873	3,111,873
Reserved for debt service	0	0	26,991	26,991
Reserved for capital improvements	198,201	0	4,573	202,774
Reserved for other	0	0	48,241	48,241
Unreserved	<u>934,325</u>	<u>49,967</u>	<u>184,627</u>	<u>1,168,919</u>
 Total fund balances	 <u>1,132,526</u>	 <u>49,967</u>	 <u>3,376,305</u>	 <u>4,558,798</u>
 Total liabilities and fund balances	 <u>\$ 3,747,751</u>	 <u>\$ 1,784,357</u>	 <u>\$ 3,664,653</u>	 <u>\$ 9,196,761</u>

See accompanying notes to financial statements.

**CITY OF BATESVILLE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

Total fund balance-total governmental funds	\$ 4,558,798
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	14,052,007
Receivables that are not collected within 60 days of year end, as designated by the City, are not deemed available to pay for current-period expenditures and therefore are deferred by the funds	4,136,483
Long term liabilities are not due and payable in the current period and therefore are not reported in the funds	(4,746,883)
Other	<u>99,780</u>
Net assets of governmental activities	<u>\$ 18,100,185</u>

CITY OF BATESVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	General Fund	Post Office Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 1,812,257	\$ 0	\$ 85,523	\$ 1,897,780
Road and bridge taxes	244,764	0	0	244,764
Licenses and permits	162,402	0	0	162,402
Intergovernmental revenue:				
Federal grants	74,535	0	282,104	356,639
State shared revenues:				
Grants	15,900	0	51,048	66,948
Sales tax	3,053,097	0	0	3,053,097
Liquor privilege taxes	6,300	0	0	6,300
Fire protection	32,150	0	0	32,150
Gasoline tax	10,373	0	0	10,373
General municipal aid	3,708	0	0	3,708
Homestead reimbursement	64,351	0	0	64,351
Tourism tax	0	0	684,739	684,739
Franchise tax	194,397	0	0	194,397
Police fines	182,897	0	0	182,897
Parks and recreation	24,251	0	0	24,251
Fire department revenue-local	7,917	0	0	7,917
Interest income	19,330	0	67,247	86,577
Rents	0	207,987	0	207,987
Contributions	691	0	282,446	283,137
Other	131,094	0	23,986	155,080
Total revenues	<u>6,040,414</u>	<u>207,987</u>	<u>1,477,093</u>	<u>7,725,494</u>
EXPENDITURES				
Current:				
General government	801,968	8,027	40,145	850,140
City court	137,933	0	0	137,933
Police	2,679,773	0	2,445	2,682,218
Fire	677,960	0	81,623	759,583
Streets	1,811,607	0	345,033	2,156,640
Sanitation	162,450	0	0	162,450
Library	255,979	0	90,415	346,394
Parks	251,577	0	188,743	440,320
Code	169,732	0	0	169,732
Economic development	0	0	245,200	245,200
Debt service:				
Principal	0	57,634	235,000	292,634
Interest	0	142,457	113,284	255,741
Paying agent fees	0	0	2,170	2,170
Total expenditures	<u>6,948,979</u>	<u>208,118</u>	<u>1,344,058</u>	<u>8,501,155</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(908,565)</u>	<u>(131)</u>	<u>133,035</u>	<u>(775,661)</u>
continued				

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS - continued
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	<u>General Fund</u>	<u>Post Office Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	\$ 893,955	\$ 0	\$ 815,736	\$ 1,709,691
Transfers to other funds	(126,308)	0	(1,537,148)	(1,663,456)
Sale of assets	0	0	675	675
Long term debt issued	<u>68,952</u>	<u>0</u>	<u>0</u>	<u>68,952</u>
Net other financing sources (uses)	<u>836,599</u>	<u>0</u>	<u>(720,737)</u>	<u>115,862</u>
 Net change in fund balances	 (71,966)	 (131)	 (587,702)	 (659,799)
 Fund balances, beginning	 <u>1,204,492</u>	 <u>50,098</u>	 <u>3,964,007</u>	 <u>5,218,597</u>
 Fund balances, ending	 <u>\$ 1,132,526</u>	 <u>\$ 49,967</u>	 <u>\$ 3,376,305</u>	 <u>\$ 4,558,798</u>

CITY OF BATESVILLE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Net changes in fund balances – total governmental funds	\$ (659,799)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	691,256
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(119,798)
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The proceeds of long-term debt provides financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This amount is the net effect of these differences in the treatment of long-term debt and related items.	<u>237,592</u>
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Change in net assets of governmental activities	<u>\$ 149,251</u>
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CITY OF BATESVILLE
STATEMENT OF FUND NET ASSETS-PROPRIETARY FUNDS
SEPTEMBER 30, 2003

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
ASSETS					
Current assets:					
Cash	\$ 633,190	\$ 157,710	\$ 111,169	\$ 34,310	\$ 936,379
Temporary cash investments	24,905	195,595	0	0	220,500
Accounts receivable	45,356	141,274	0	6,908	193,538
Inventory	127,792	362,417	0	0	490,209
Prepaid items	25,072	11,259	1,574	0	37,905
Due from other funds-governmental	6,678	98,670	122,049	29,875	257,272
Due from other funds-enterprise	40,434	(14,985)	9,198	(34,647)	0
Total current assets	<u>903,427</u>	<u>951,940</u>	<u>243,990</u>	<u>36,446</u>	<u>2,135,803</u>
Restricted assets (Note 5):					
Cash	216,585	0	822,375	0	1,038,960
Temporary cash investments	<u>140,095</u>	<u>194,405</u>	<u>4,317,000</u>	<u>0</u>	<u>4,651,500</u>
Total restricted assets	<u>356,680</u>	<u>194,405</u>	<u>5,139,375</u>	<u>0</u>	<u>5,690,460</u>
Non-current assets:					
Deferred bond issue costs	64,754	0	190,198	0	254,952
Capital assets, net (Note 6)	<u>13,224,185</u>	<u>1,395,245</u>	<u>4,751,309</u>	<u>0</u>	<u>19,370,739</u>
Total non-current assets	<u>13,288,939</u>	<u>1,395,245</u>	<u>4,941,507</u>	<u>0</u>	<u>19,625,691</u>
Total assets	<u>14,549,046</u>	<u>2,541,590</u>	<u>10,324,872</u>	<u>36,446</u>	<u>27,451,954</u>

Continued

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF FUND NET ASSETS-PROPRIETARY FUNDS - continued
SEPTEMBER 30, 2003

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
LIABILITIES					
Current liabilities:					
Accounts payable and accrued expenses	\$ 106,201	\$ 237,147	\$ 77,053	\$ 36,446	\$ 456,847
Current portion of long-term debt (Note 7)	393,072	0	305,000	0	698,072
Current portion of deferred refunding loss	<u>(17,036)</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(17,036)</u>
Total current liabilities	<u>482,237</u>	<u>237,147</u>	<u>382,053</u>	<u>36,446</u>	<u>1,137,883</u>
Liabilities payable from restricted assets:					
Accounts payable and accrued expenses	11,585	0	1,531,820	0	1,543,405
Current portion of long-term debt (Note 7)	175,000	0	0	0	175,000
Customer deposits	<u>140,095</u>	<u>194,405</u>	<u>0</u>	<u>0</u>	<u>334,500</u>
Total liabilities payable from restricted assets	<u>326,680</u>	<u>194,405</u>	<u>1,531,820</u>	<u>0</u>	<u>2,052,905</u>
Non-current liabilities:					
Bonds payable (Note 7)	1,350,000	0	0	0	1,350,000
Deferred refunding loss	(51,764)	0	0	0	(51,764)
Notes and leases payable (Note 7)	3,363,550	0	7,225,000	0	10,588,550
Compensated absences	<u>29,175</u>	<u>15,752</u>	<u>0</u>	<u>0</u>	<u>44,927</u>
Total non-current liabilities	<u>4,690,961</u>	<u>15,752</u>	<u>7,225,000</u>	<u>0</u>	<u>11,931,713</u>
Total liabilities	<u>5,499,878</u>	<u>447,304</u>	<u>9,138,873</u>	<u>36,446</u>	<u>15,122,501</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,136,020	1,395,245	828,864	0	10,360,129
Restricted for debt service	30,000	0	0	0	30,000
Unrestricted	<u>883,148</u>	<u>699,041</u>	<u>357,135</u>	<u>0</u>	<u>1,939,324</u>
Total net assets	<u>\$ 9,049,168</u>	<u>\$ 2,094,286</u>	<u>\$ 1,185,999</u>	<u>\$ 0</u>	<u>\$12,329,453</u>

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
OPERATING REVENUES					
Charges for sales and services:					
Water sales	\$ 1,218,777	\$ 3,432,222	\$ 0	\$ 0	\$ 4,650,999
Sewer fees	905,232	0	0	0	905,232
Gas sales	0	0	0	0	0
Sanitation fees	0	0	0	196,357	196,357
Other	93,254	44,307	0	2,942	140,503
Total operating revenues	<u>2,217,263</u>	<u>3,476,529</u>	<u>0</u>	<u>199,299</u>	<u>5,893,091</u>
OPERATING EXPENSES					
Natural gas purchases	0	2,426,979	0	0	2,426,979
Materials and supplies	242,130	55,067	2,113	0	299,310
Salaries and benefits	765,791	361,190	0	0	1,126,981
Professional services	149,122	58,552	6,863	220,394	434,931
Utilities	208,750	9,934	4,931	0	223,615
Depreciation and amortization	664,032	63,028	0	0	727,060
Repairs	158,007	14,028	294	0	172,329
Insurance	68,417	24,879	1,711	0	95,007
Rents	72,867	8,775	1,390	0	83,032
Other	102,896	83,752	565	1,485	188,698
Less capitalized expenses	<u>(93,696)</u>	<u>(52,068)</u>	<u>0</u>	<u>0</u>	<u>(145,764)</u>
Total operating expenses	<u>2,338,316</u>	<u>3,054,116</u>	<u>17,867</u>	<u>221,879</u>	<u>5,632,178</u>
Operating income (loss)	<u>(121,053)</u>	<u>422,413</u>	<u>(17,867)</u>	<u>(22,580)</u>	<u>260,913</u>
NON-OPERATING REVENUE (EXPENSES)					
Interest income	7,857	9,921	79,643	0	97,421
Interest expenses	(231,596)	0	(272,765)	0	(504,361)
Paying agent fees	<u>(1,379)</u>	<u>0</u>	<u>(2,374)</u>	<u>0</u>	<u>(3,753)</u>
Total non-operating revenue expenses	<u>(225,118)</u>	<u>9,921</u>	<u>(195,496)</u>	<u>0</u>	<u>(410,693)</u>
Income (loss) before contributions & transfers	(346,171)	432,334	(213,363)	(22,580)	(149,780)
Transfers from other funds	425,213	78,207	460,472	13,898	977,790
Transfers to other funds	<u>(378,072)</u>	<u>(628,065)</u>	<u>(17,888)</u>	<u>0</u>	<u>(1,024,025)</u>
Change in net assets	(299,030)	(117,524)	229,221	(8,682)	(196,015)
Total net assets, beginning	9,348,198	2,302,489	956,778	8,682	12,616,147
Prior period adjustment, Note 12	<u>0</u>	<u>(90,679)</u>	<u>0</u>	<u>0</u>	<u>(90,679)</u>
Total net assets, ending	<u>\$ 9,049,168</u>	<u>\$ 2,094,286</u>	<u>\$ 1,185,999</u>	<u>\$ 0</u>	<u>\$12,329,453</u>

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers and users	\$ 2,222,727	\$ 3,457,382	\$ 0	\$ 198,325	\$ 5,878,434
Payments to suppliers for goods and services	(944,696)	(2,678,614)	(116,334)	(202,527)	(3,942,171)
Payments to employees for services	<u>(727,148)</u>	<u>(338,122)</u>	<u>0</u>	<u>0</u>	<u>(1,065,270)</u>
Net cash provided (used) by operating activities	<u>550,883</u>	<u>440,646</u>	<u>(116,334)</u>	<u>(4,202)</u>	<u>870,993</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES					
Transfers from other funds	556,476	0	0	14,731	571,207
Transfers to other funds	<u>(210,923)</u>	<u>(536,358)</u>	<u>(14,088)</u>	<u>0</u>	<u>(761,369)</u>
Net cash provided (used) by non-capital financing activities	<u>345,553</u>	<u>(536,358)</u>	<u>(14,088)</u>	<u>14,731</u>	<u>(190,162)</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(450,955)	(53,836)	(1,912,837)	0	(2,417,628)
Proceeds from capital debt	294,898	0	0	0	294,898
Principal paid on capital debt	(540,868)	0	(70,000)	0	(610,868)
Interest paid on capital debt	(215,939)	0	(264,904)	0	(480,843)
Transfers from other funds for capital assets	0	0	7,512,419	0	7,512,419
Transfers to other funds for capital assets	<u>(167,149)</u>	<u>(7,113,617)</u>	<u>(122,049)</u>	<u>0</u>	<u>(7,402,815)</u>
Net cash provided (used) by capital financing activities	<u>(1,080,013)</u>	<u>(7,167,453)</u>	<u>5,142,629</u>	<u>0</u>	<u>(3,104,837)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest income	<u>7,857</u>	<u>9,921</u>	<u>70,445</u>	<u>0</u>	<u>88,223</u>
Net increase (decrease) in cash and cash equivalents	(175,720)	(7,253,244)	5,082,652	10,529	(2,335,783)
Cash and cash equivalents, beginning	<u>1,190,495</u>	<u>7,800,954</u>	<u>167,892</u>	<u>23,781</u>	<u>9,183,122</u>
Cash and cash equivalents, ending	<u>\$ 1,014,775</u>	<u>\$ 547,710</u>	<u>\$ 5,250,544</u>	<u>\$ 34,310</u>	<u>\$ 6,847,339</u>
continued					

See accompanying notes to financial statements.

CITY OF BATESVILLE
STATEMENT OF CASH FLOWS-PROPRIETARY FUNDS - continued
FOR THE YEAR ENDED SEPTEMBER 30, 2003

	Water And Sewer Fund	Gas Fund	Civic Center Fund	Non-Major Fund	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES					
Operating income (loss)	\$ (121,053)	\$ 422,413	\$ (17,867)	\$ (22,580)	\$ 260,913
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation and amortization	664,032	63,028	0	0	727,060
(Increase) decrease in accounts receivable	(5,259)	(27,684)	0	(974)	(33,917)
(Increase) decrease in inventories	6,678	(139,557)	0	0	(132,879)
(Increase) decrease in prepaid items	(4,657)	1,074	(889)	0	(4,472)
Increase (decrease) in accounts payable and accrued expenses	419	112,835	(97,578)	19,352	35,028
Increase (decrease) in customer deposits	10,723	8,537	0	0	19,260
Total adjustments	671,936	18,233	(98,467)	18,378	610,080
Net cash provided (used) by operating activities	\$ 550,883	\$ 440,646	\$ (116,334)	\$ (4,202)	\$ 870,993
NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:					
Purchase of capital assets on account	\$ 0	\$ 0	\$ 1,531,820	\$ 0	\$ 1,531,820
Cost of disposed capital assets	\$ 15,799	\$ 8,800	\$ 0	\$ 0	\$ 24,599
Accumulated depreciation on disposed capital assets	\$ (15,799)	\$ (8,800)	\$ 0	\$ 0	\$ (24,599)

CITY OF BATESVILLE NOTES TO FINANCIAL STATEMENTS

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Batesville, Mississippi (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The City does not apply FASB pronouncements or APB opinions issued after November 30, 1989. The more significant of the government's accounting policies are described below.

A. New Accounting Standard Adopted

In fiscal year 2003, the City adopted three new statements of financial accounting standards.

- a) Statement No. 34 - *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments*
- b) Statement no. 37 - *Basic Financial Statements – and Management's Discussion and Analysis - for State and Local Governments: Omnibus*
- c) Statement No. 38 - *Certain Financial Statement Disclosures*

Statement No. 34 (as amended by Statement No. 37) represents a very significant change in the financial reporting model used by state and local governments.

Statement No. 34 requires government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund or account group, but distinguish between the City's governmental activities, business-type activities, and activities of its discretely presented component units on the statement of net assets statement of activities. Significantly, the City's statement of net assets includes both noncurrent assets and noncurrent liabilities of the City, which were previously recorded in the General Fixed Assets Account Group and the General Long-term Debt Account Group.

The City's implementation of these standards had the following impact on the City's financial statements:

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

	<u>General Fund</u>
Fund Balance increase (decrease)	
Recognized previously expensed assets	\$ 15,401,291
Record prior long-term debt	(4,984,476)
Full accrual of prior non-exchange transactions	<u>2,315,522</u>
	<u>\$ 12,732,337</u>
Current net revenues increased (decreased)	
Capitalize and depreciate long-term assets	\$ 691,256
Current year debt service	237,592
Full accrual of non-exchange transactions	<u>(119,799)</u>
	<u>\$ 809,049</u>

In addition to the government-wide financial statements, the City has prepared fund financial statements, which continue to use the modified accrual basis of accounting and the current financial resources measurement focus. The accrual basis of accounting is utilized by proprietary fund types. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. Accordingly, the accounting and financial reporting of the City's General Fund, Special Revenue Funds, Capital projects Funds and Debt Services Funds is similar to that previously presented in the City's financial statements, although the format of financial statements has been modified by Statement No. 34 to focus on major funds, as opposed to presenting fund types.

Statement No. 34 also requires certain required supplementary information in the form of Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison statement is presented that compares the adopted and modified General Fund budget with actual results.

Statement No. 37 amends GASB Statements No. 21 and No. 34. The amendments to Statement 21 are necessary because of the changes to the fiduciary fund structure required by Statement 34. Generally, escheat property that was reported in an expendable trust fund in the previous model should be reported in a private purpose trust fund under Statement 34. Additionally, the amendments either (1) clarify certain provisions that, in retrospect, may not be sufficiently clear for consistent application or (2) modify other provisions that the GASB Board believes may have unintended consequences in some circumstances. This statement became effective for the City in fiscal year 2003.

GASB has issued Statement No. 38, *Certain Financial Statement Note Disclosures* which modifies, establishes and rescinds certain financial statement disclosure requirements.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

B. Government-wide and Fund Financial Statements

Government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Financial Reporting Entity

The City of Batesville is located in Panola County, Mississippi, was incorporated in 1866, and operates under an elected Mayor-Board of Aldermen form of government. The City provides the following services to the citizenry: general administration; water, sewer, gas and garbage disposal; police and fire protection; economic development; street repair and library services. The primary sources of revenues are property taxes, utility billings and sales taxes. Various criteria are applied in order to determine the various funds and activities which should be reported as part of the City. Such criteria includes oversight responsibility by the elected officials such as decision-making authority, accountability to the City, legal and fiscal responsibility, and inter-agency relationships. All agencies meeting the above criteria are included in the financial statements of the City. As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

from these units are combined with data of the primary government. Each blended component unit has a September 30 year end.

The Batesville Public Improvement Corporation is a non-profit organization formed in 1991 to construct and finance the new Batesville Library. The Corporation issued \$610,000 in “certificates of participation” which was used, along with a \$200,000 library grant obtained by the City, to construct and furnish a new library facility. The City’s Mayor and Board of Aldermen also serve as the Corporation’s Board of Directors, and the City was the Corporation’s designated agent responsible for all phases of construction. During 1998, the Corporation incurred \$1,921,000 in notes payable to a commercial bank in order to fund the construction of a new post office. The building was leased to the Postal Service in 1998 and the lease was accounted for as a lease-sale. For financial reporting purposes, the Corporation is reported as a blended component unit as if it were part of the City’s operations.

The Batesville Housing Authority (B.H.A.) is a non-profit organization formed to provide subsidized public housing in accordance with federal legislation. The B.H.A. owns and operates the public housing facilities and is essentially supported by the rents and subsidies received under contract from the Department of Housing and Urban Development. While the City appoints the members of B.H.A.’s board, the City’s accountability for B.H.A. does not extend beyond making the appointments. The B.H.A. is considered a related organization but not a part of the City’s reporting entity because the City has no oversight responsibility or accountability for fiscal matters.

Tri-Lakes Medical Center (TLMC) is the product of an inter-local agreement between the City and Panola County. TLMC constructed a 70 bed replacement facility of the current hospital to provide full medical services to the surrounding communities. Three members of the TLMC’s five member board of trustees are appointed by the County and two by the City with removal only for cause. The City has no equity interest in TLMC nor does it contribute to its operations. The City’s only financial interests in TLMC is the fact that the City guarantees the servicing of TLMC’s bond issue up to \$100,000 per year. TLMC has been determined to be a component unit of Panola County, issues separate financial statements, and none of its activity is reflected within the financial statements of the City. TLMC has experienced financial difficulties, and the County and City have been exploring the possibility of selling or leasing the facility to outside parties.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

Reimbursements are reported as reductions to expenses. Proprietary and fiduciary fund financial statements and financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: sales and use taxes, tourism taxes, property taxes, franchise taxes and intergovernmental revenues. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as needed. See Note 5 for information describing restricted assets.

Governmental Funds

Governmental Funds are those thorough which most governmental functions typically are financed. The City reports the following governmental funds:

- a) *General Fund* - The General Fund is the City's primary operating fund. It accounts for all financial resources of the City's general government, except those required to be accounted for in another fund.
- b) *Special Revenue Funds* - Special Revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes.
- c) *Debt Service Funds* - Debt Service Funds account for the servicing of general long-term debt.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

- d) *Capital Projects Funds* - Capital Projects Funds account for the acquisition of fixed assets or construction of major capital projects (other than those financed by proprietary funds).

Proprietary Funds

Proprietary Funds are accounted for on the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The City reports the following proprietary funds:

- a) *Enterprise funds* - Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business, primarily through user charges or where the City has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

Fiduciary Funds

Fiduciary Funds account for assets held by the City in a trustee capacity or as an agent.

- a) *Agency Funds* – Agency Funds are custodial in nature and do not present results of operations or have a measurement focus.

E. Cash and Cash Equivalents

Cash and cash equivalents are stated at cost, which approximates market. The City considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

F. Inventories

Inventories of the enterprise funds are stated at cost as determined by the moving average method. The governmental funds record inventoriable items as expenses when purchased, thus inventories of supplies on hand are not reported as assets.

G. Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

assets with cost of \$1,000 or more as purchase and construction outlays occur. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

Following are the estimated useful lives used for computing depreciation:

Building and improvements	10-50 years
Equipment and fixtures	5-10 years
Water and sewerage plant	20-50 years
Gas system	10-40 years

H. Capitalized Interest

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. All repairs and maintenance are expensed as incurred. Interest costs charged to operations consist of the following:

Interest cost incurred	\$ 545,259
Decrease as a result of capitalizing interest as a cost of construction	<u>(40,898)</u>
Interest charges to operations	<u>\$ 504,361</u>

I. Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide and proprietary financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

J. Fund Equity

The governmental fund financial statements report reserved fund balance for amounts not available for appropriation or legally restricted for specified purposes.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – continued

K. Compensated Employee Absences

Employees can accumulate vacation days and sick days up to a maximum at which point any additional days are lost. Employees are completely vested in vacation days up to the maximum in that they can take them or be paid for them upon termination. Sick days may be taken only for bona fide sickness and are lost upon termination of employment.

The City accrues compensated absences when vested. the current portions of the Governmental Funds' compensated absences liabilities are recorded as accrued liabilities. The current and noncurrent portions are recorded in the government-wide financial statements. The amount of vacation recognized as expense is the amount earned during the year.

L. Risk Management

The City carries commercial insurance with respect to risks including, but not limited to, property damage and personal injury. Insurance coverage remains relatively constant, and settlement amounts have not exceeded insurance coverage for the current year or the prior three years.

M. Estimates and Assumptions

A number of estimates and assumptions relating to the reporting of revenues, expense, expenditures, assets and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

N. Property Taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Delinquent taxes are considered fully collectible and therefore no allowance for uncollectible taxes is provided.

Note 2. BUDGET POLICY

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- A. Prior to September 30, the City Clerk submits to the Mayor and Aldermen a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenses and expenditures and the means of financing them.

Note 2. BUDGET POLICY- continued

- B. Public notice is given of the City's budget meetings being open to the public, so that a public hearing is conducted on the budget.
- C. The budget as submitted is reviewed by the Mayor and Aldermen and necessary revisions are made to the budget. Then the budget is approved prior to September 30.
- D. The budget is formally revised during July of each year or anytime a deficit is indicated.
- E. Budgetary comparisons are employed by management as a management control device during the year for all funds.
- F. Appropriations lapse at the end of each fiscal year.

Mississippi laws require that municipalities budget on a modified-cash basis. Claims that have been incurred prior to the end of the year and that are paid within 30 days are recorded under the accrual basis. Prior year claims that are paid after 30 days revert to the cash basis. All revenue is accounted for under the cash basis. The required budgetary basis is therefore not considered a generally accepted accounting principal. Governmental accounting requires that the "budget to actual" statements be prepared according to budgetary laws and the statement of revenues, expenditures, and fund balance be prepared according to the modified-accrual basis (GAAP). The major reconciling items between the budgetary and GAAP presentations are presented on the "budget to actual" statements.

Note 3. CASH AND INVESTMENTS

The City follows the practice of pooling the excess cash of all unrestricted funds, and investing the total in the most advantageous manner. Earnings of these investments are allocated among the participating funds based upon their relationship to the total investment. Various restrictions on deposits and investments are imposed by statutes. These restrictions are summarized below.

Deposits

All deposits with financial institutions must be with institutions insured by the Federal Deposit Insurance Corporation and qualified with the state treasurer. The institutions must pledge collateral equal to at least 105% of the amount of the deposits in excess of the insured amount or be a member of the state's public funds guaranty pool. All financial institutions used by the City are members of the state's public funds guaranty pool. The City's pooled and non-pooled deposits are categorized to give an indication of the level of risk assumed by the City at September 30, 2003. The categories are described as follows:

Note 3. CASH AND INVESTMENTS - continued

Category 1 - Insured
Category 2 - Collateralized by the state public funds guaranty pool
Category 3 - Uncollateralized

<u>Balance per Bank</u>	<u>Category</u>		
	<u>1</u>	<u>2</u>	<u>3</u>
\$ 11,427,201	\$ 428,711	\$ 10,998,490	\$ 0

These cash balances differ from the amounts shown in the financial statements because of in-transit items.

Investments

The City may invest its surplus funds in certificates of deposits, any bonds or direct obligations of the United States of America or the State of Mississippi, or in the bonds of any county, municipality or school district of Mississippi provided such bonds have been approved by a reputable bond attorney or have been validated by a decree of the Chancery Court. During 2003, the City invested only in bank certificates of deposit.

Market value of the City's investments (certificates of deposit) was determined by the specific identification method based upon current yields of comparable certificates of deposits.

Note 4. RECEIVABLES, UNCOLLECTABLES AND DEFERRED REVENUE

Enterprise Receivables

Significant receivables include amounts due from customers for utility services that are based on monthly cycle billings. These accounts receivables and related revenues are reported net of estimated uncollectibles. Customer deposits are obtained to assist in the collection of such receivables. Unbilled revenues at September 30, 2003 was approximately:

Water and Sewer	\$ 219,000
Gas	\$ 153,000

Tax and Intergovernmental Receivables

In the government-wide financial statements, the receivables and related revenues include all amounts due the City regardless of when cash is received. In the governmental fund financial statements, the revenues are offset and revenue recognition deferred by the amounts not received within 60 days of year end. Intergovernmental receivables is composed of:

Note 4. RECEIVABLES, UNCOLLECTABLES AND DEFERRED REVENUE - continued

Sales and tourism taxes	\$ 647,703
Crime and Fire Prevention grants	4,297
MDOT	8,357
Homestead exemption	68,212
State Rural Impact Fund	38,760
CDBG	194,946
Public Library Grant	<u>30,348</u>
	<u>\$ 992,623</u>

Lease and Loan Receivables

During 1998, the City completed construction of the new post office building and entered into a lease-sale with the U.S. Postal Service. Minimum lease payments receivable at September 30, 2003 were:

	<u>Principal Portion</u>	<u>Interest Portion</u>	<u>Total Lease</u>
2004	\$ 63,335	\$ 144,652	\$ 207,987
2005	68,933	139,054	207,987
2006	75,026	132,961	207,987
2007	81,658	126,329	207,987
2008	88,876	119,111	207,987
Thereafter	<u>1,352,547</u>	<u>623,332</u>	<u>1,975,879</u>
	<u>\$1,730,375</u>	<u>\$1,285,439</u>	<u>\$3,015,814</u>

The grant proceeds of previous CDBG programs are being used to promote industrial growth by making loans to private concerns. All loan repayments will continue to be restricted to the Economic Development Program. Summaries of the gross loans at September 30, 2003 are:

	<u>Original Term</u>	<u>Due Date</u>	<u>Interest Rate</u>	<u>Loan Balance</u>
Loan #1	10 years	2004	6.00%	\$ 9,746
Loan #2	10 years	2007	0.00%	280,000
Loan #3	10 years	2007	7.25%	49,663
Loan #4	10 years	2008	3.00%	174,333
Loan #5	10 years	2011	3.00%	189,922
Loan #6	10 years	2011	3.00%	<u>159,103</u>
				862,767
				<u>Current portion, before allowance (181,293)</u>
				<u>Long-term portion, before allowance \$ 681,474</u>

Note 4. RECEIVABLES, UNCOLLECTABLES AND DEFERRED REVENUE - continued

The estimated amounts receivable for the years 2004 through 2008 are approximately:

2004	\$ 181,293
2005	129,744
2006	132,077
2007	134,523
2008	53,770
Thereafter	<u>231,360</u>
	<u>\$ 862,767</u>

The City also administers a program that provided funds to rehabilitate substandard housing for low income individuals. A portion of each loan is forgiven each year that the eligible party occupies the residence. The intent of the program was that loan payment was not expected unless there was a balance due upon the death or abandonment by the eligible party.

Total loans estimated to become due	\$ 151,115
Current portion	<u>(19,721)</u>
Long-term portion	<u>\$ 131,394</u>

Total City loans consisted of the following:

	<u>Current</u>	<u>Non-current</u>	<u>Total</u>
Post Office	\$ 63,335	\$1,667,040	\$ 1,730,375
Economic development	181,293	681,474	862,767
Home program	<u>19,721</u>	<u>131,394</u>	<u>151,115</u>
	264,349	2,479,908	2,744,257
Allowance for uncollectability	<u>(73,433)</u>	<u>(192,821)</u>	<u>(266,254)</u>
	<u>\$ 190,916</u>	<u>\$2,287,087</u>	<u>\$ 2,478,003</u>

Management monitors the adequacy of the allowance for loan losses in order to maintain it at a level deemed adequate to absorb potential losses. Management's determination of the allowance is based on the evaluation of the loan portfolio, past experience, current economic conditions and other relevant factors. Additions to the allowance account are charged against earnings. Loans which in the opinion of management are uncollectible are charged to the allowance account. For 2003, the City had an allowance for loan losses of \$266,254.

Note 4. RECEIVABLES, UNCOLLECTABLES AND DEFERRED REVENUE – continued

The following is a summary of information pertaining to impaired loans at September 30, 2003:

Impaired loans without a valuation allowance	\$ 0
Impaired loans with a valuation allowance	<u>364,255</u>
Total impaired loans	<u>\$ 364,255</u>
Average investment in impaired loans	<u>\$ 364,380</u>
Interest income recognized on impaired loans	<u>\$ 6,662</u>

Note 5. RESTRICTED ASSETS

Certain assets are restricted for construction funded through long-term debt, federal grants and debt service. In addition, certain assets are held as deposits and are only potentially available for City use.

The bond resolutions have several requirements of the City concerning such items as the maintenance and segregation of accounts and the collection and application of the water and sewerage system revenues. The resolutions stipulated the accumulation of certain funds for the protection of the bondholder, and in 2003 the City had the following restricted cash:

	General	Water and Sewerage	Gas	Civic Center	Other
Capital additions	\$198,201	\$ 0	\$ 0	\$5,139,375	\$ 15,863
Depreciation fund	0	15,000	0	0	0
Contingent fund	0	15,000	0	0	0
Debt service	0	186,585	0	0	27,456
Customer deposits	0	140,095	194,405	0	0
Building compliance bonds	35,868	0	0	0	0
Excess tax collection and other	0	0	0	0	65,296
Economic development	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,401,003</u>
	<u>\$234,069</u>	<u>\$356,680</u>	<u>\$ 194,405</u>	<u>\$5,139,375</u>	<u>\$2,509,618</u>

Note 6. CAPITAL ASSETS

The following table provides a summary of changes in capital assets during 2003:

	<u>Not Depreciated</u>		<u>Depreciated</u>			
	<u>Land</u>	<u>Construction in Progress</u>	<u>Buildings and Improvements</u>	<u>Infrastructure</u>	<u>Furniture Plant and Equipment</u>	<u>Total</u>
Governmental Activities						
Balance, 9-30-02	\$ 987,086	\$ 1,093,158	\$ 4,108,479	\$ 13,197,483	\$ 4,241,430	\$ 23,627,636
Increases	118,347	725,937	7,947	582,148	314,871	1,749,250
Decreases	0	0	0	0	(143,399)	(143,399)
Transfers	<u>10,500</u>	<u>(1,093,158)</u>	<u>0</u>	<u>1,082,658</u>	<u>0</u>	<u>0</u>
Balance, 9-30-03	<u>1,115,933</u>	<u>725,937</u>	<u>4,116,426</u>	<u>14,862,289</u>	<u>4,412,902</u>	<u>25,233,487</u>
Accumulated Depreciation						
Balance, 9-30-02	0	0	1,183,012	6,484,312	2,599,561	10,266,885
Increases	0	0	122,237	554,373	360,908	1,037,518
Decreases	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(122,925)</u>	<u>(122,925)</u>
Balance, 9-30-03	<u>0</u>	<u>0</u>	<u>1,305,249</u>	<u>7,038,685</u>	<u>2,837,544</u>	<u>11,181,478</u>
Capital Assets, Net	<u>\$ 1,115,933</u>	<u>\$ 725,937</u>	<u>\$ 2,811,177</u>	<u>\$ 7,823,604</u>	<u>\$ 1,575,358</u>	<u>\$ 14,052,009</u>
Business type Activities						
Balance, 9-30-02	\$ 711,500	\$ 817,281	\$ 131,497	\$ 22,672,457	\$ 1,125,026	\$ 25,457,761
Increases	47,000	3,450,857	2,759	439,158	9,674	3,949,448
Decreases	0	0	0	0	(6,999)	(6,999)
Transfers	<u>0</u>	<u>(15,628)</u>	<u>0</u>	<u>15,628</u>	<u>0</u>	<u>0</u>
Balance, 9-30-03	<u>758,500</u>	<u>4,252,510</u>	<u>134,256</u>	<u>23,127,243</u>	<u>1,127,701</u>	<u>29,400,210</u>
Accumulated Depreciation						
Balance, 9-30-02	0	0	66,077	8,343,033	909,550	9,318,660
Increases	0	0	8,427	639,519	69,864	717,810
Decreases	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>(6,999)</u>	<u>(6,999)</u>
Balance, 9-30-03	<u>0</u>	<u>0</u>	<u>74,504</u>	<u>8,982,552</u>	<u>972,415</u>	<u>10,029,471</u>
Capital Assets, Net	<u>\$ 758,500</u>	<u>\$ 4,252,510</u>	<u>\$ 59,752</u>	<u>\$ 14,144,691</u>	<u>\$ 155,286</u>	<u>\$ 19,370,739</u>
Total Capital Assets, Net	<u>\$ 1,874,433</u>	<u>\$ 4,978,447</u>	<u>\$ 2,870,929</u>	<u>\$ 21,968,295</u>	<u>\$ 1,730,644</u>	<u>\$ 33,422,748</u>

Note 6. CAPITAL ASSETS – continued

Construction in progress is composed of the following:

	Spent to <u>9-30-03</u>	Estimated to <u>Complete</u>
Governmental Activities:		
Street projects	\$ 685,899	\$ 877,000
Police Department	<u>40,038</u>	<u>162,000</u>
	<u>725,937</u>	<u>1,039,000</u>
Business Activities:		
Sewer line expansion	6,199	138,000
Civic Center building	<u>4,246,311</u>	<u>4,235,000</u>
	<u>4,252,510</u>	<u>4,373,000</u>
Total	<u>\$4,978,447</u>	<u>\$5,412,000</u>

The construction projects included in governmental activities are primarily funded through grants and revenue debt issues.

The construction projects included in business-type activities are primarily funded through revenue debt issues and tourism taxes.

Depreciation expense was charged to City functions as follows:

<u>Governmental Activities</u>		<u>Business-type Activities</u>	
General	\$ 51,066	Water & Sewer	\$ 654,784
Police	143,773	Gas	63,028
Code	0		
Court	4,237		
Fire	161,385		
Streets	604,379		
Sanitation	833		
Parks	29,061		
Library	42,784		

The City is also involved in overseeing the rehabilitation of a non-for-profit community center. At September 30, 2003, construction costs were approximately \$189,000 of the total projected cost of \$359,000. The project is projected to be completed in 2004, with funding provided by grants and local donations.

Note 7. LONG-TERM DEBT

The City's long-term debt is made up of general obligation bonds, revenue bonds, notes and capitalized lease obligations. General obligation bonds are direct obligations, and pledge the full faith and credit of the City. Revenue debt is payable solely from the revenues of the underlying facilities. The City also incurs debt in the form of various notes and capital leases which are to be repaid through daily operations.

The City is subject to a general statutory debt limitation under which no City in the State may incur general obligation bonded indebtedness in the amount which will exceed 15 percent of the assessed value of the taxable property within such City according to the last completed assessment for taxation.

In computing general obligation bonded indebtedness for purposes of such 15 percent limitation, there may be deducted all bonds or other evidences of indebtedness issued for school, water and sewerage systems, gas and light and power purposes and for construction of special improvements primarily chargeable to the property benefited, or for the purpose of paying a City's proportion of any betterment program, a portion of which is primarily chargeable to the property benefited. However, in no case may a City contract any indebtedness payable in whole or in part from proceeds of ad valorem taxes which, when added to all of its outstanding general obligation indebtedness, both bonded and floating, exceeds 20 percent of the assessed value of the taxable property within such City.

In arriving at the limitations set forth above, bonds issued for school purposes, bonds payable exclusively from the revenues of any municipally- owned utility, general obligation industrial bonds issued under the provisions of Sections 57-1-1 to 57-1-51, Mississippi Code of 1972, Annotated, Revised 1989, and special assessment improvement bonds issued under the provisions of Sections 21-41-1 to 21-41-53, Mississippi Code of 1972, Annotated, Revised 1990, are not included. Also excluded from both limitations are contract obligations subject to annual appropriations.

The margin for additional debt under the above debt limits as of September 30, 2003 is approximately:

<u>15% Limit</u>	<u>20% Limit</u>
<u>\$6,668,000</u>	<u>\$10,593,000</u>

Note 7. LONG-TERM DEBT – continued

The following is a summary of changes in long-term debt for the year ended June30, 2003:

	<u>Balance</u> <u>9-30-02</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>9-30-03</u>	<u>Due within</u> <u>One year</u>
Governmental Activities:					
General Obligation bonds	\$ 2,475,000	\$ 0	\$ 200,000	\$ 2,275,000	\$ 210,000
Special Assessment bonds	455,000	0	65,000	390,000	70,000
CAP loans	138,139	0	29,183	108,956	31,356
Capitalized leases- police cars	49,464	68,952	23,988	94,428	21,660
Blended Component unit: Notes payable Post Office	1,702,230	0	57,633	1,644,597	62,335
Compensated absences	<u>121,905</u>	<u>13,171</u>	<u>0</u>	<u>135,076</u>	<u>29,133</u>
Total Governmental	<u>4,941,738</u>	<u>82,123</u>	<u>375,804</u>	<u>4,648,057</u>	<u>424,484</u>
Business-type Activities:					
Revenue bonds:					
Major enterprise fund					
Water and sewer	<u>1,940,000</u>	<u>0</u>	<u>290,000</u>	<u>1,650,000</u>	<u>300,000</u>
Deferred refunding loss:					
Major enterprise fund					
Water and sewer	<u>(85,836)</u>	<u>0</u>	<u>(17,036)</u>	<u>(68,800)</u>	<u>(17,036)</u>
Notes Payable:					
Major enterprise fund					
Water and sewer	3,587,592	294,898	250,868	3,631,622	268,072
Civic Center building	<u>7,600,000</u>	<u>0</u>	<u>70,000</u>	<u>7,530,000</u>	<u>305,000</u>
Total notes payable	<u>11,187,592</u>	<u>294,898</u>	<u>320,868</u>	<u>11,161,622</u>	<u>573,072</u>
Compensated Absences:					
Major enterprise fund					
Water and sewer	28,982	5,972	0	34,954	5,779
Gas	<u>15,756</u>	<u>1,703</u>	<u>0</u>	<u>17,459</u>	<u>1,707</u>
Total compensated absences	<u>44,738</u>	<u>7,675</u>	<u>0</u>	<u>52,413</u>	<u>7,486</u>
Total business type	<u>13,086,494</u>	<u>302,573</u>	<u>593,832</u>	<u>12,795,235</u>	<u>863,522</u>
Total long-term debt	<u>\$18,028,232</u>	<u>\$ 384,696</u>	<u>\$ 969,636</u>	<u>\$17,443,292</u>	<u>\$ 1,288,006</u>

Note 7. LONG-TERM DEBT – continued
Detail of bonds and notes outstanding:

	Interest Rates	Issue Date	Maturity Date	Original Amount	<u>September 30, 2003 Balance</u>	
					<u>Governmental Activities</u>	<u>Business-type Activities</u>
General Obligations Bonds:						
General Obligation						
Refunding Bonds	4.30% to 4.75%	05-15-98	02-01-12	\$ 3,000,000	\$ 1,955,000	\$ 0
General Obligation						
Bonds-Series 2001	4.75%	12-01-01	12-01-11	350,000	320,000	0
Special Assessment Public						
Improvement Bonds	5.00% to 5.30%	04-01-93	04-01-08	900,000	390,000	0
Revenue Bonds:						
Combined Water and Sewer System						
Revenue Refunding						
Bonds-Series 1999	3.90% to 4.40%	06-24-99	02-01-10	2,625,000	0	1,650,000
Other Issued Debt:						
Note Payable:						
Mississippi Development Bank	1.75% to 5.00%	09-30-02	07-01-18	7,250,000	0	7,250,000
State of Mississippi	4.00%	08-01-93	05-01-13	4,074,135	0	2,398,196
State of Mississippi	3.00%	09-09-99	09-01-19	211,650	0	176,467
State of Mississippi	3.00%	03-07-00	03-01-20	395,853	0	341,249
State of Mississippi	4.00%	03-26-97	01-26-07	281,459	108,956	0
State of Mississippi	3.00%	08-07-01	08-01-16	269,358	0	237,714
State of Mississippi	3.00%	08-03-01	03-01-22	200,000	0	188,183
State of Mississippi	2.00%	05-16-03	05-01-23	294,848	0	289,813
Bank	8.50%	11-07-96	11-01-17	1,921,000	1,644,597	0
Economic Development Fund	0%	11-02-99	09-01-07	465,000	0	280,000
Capital Lease – 4 Police Cars	6.20%	04-15-02	04-15-04	49,464	25,476	0
Capital Lease – 3 Police Cars	5.85%	04-11-03	04-11-06	40,820	40,820	0
Capital Lease – 2 Police Cars	6.20%	04-11-03	04-11-06	28,132	<u>28,132</u>	<u>0</u>
					<u>\$ 4,512,981</u>	<u>\$ 12,811,622</u>

On October 8, 2003, the City issued \$750,000 in Tax Increment Limited Obligation Bonds.

Note 7. LONG-TERM DEBT – continued

The annual debt service requirements of long-term debt as of June 30, 2003 are as follows:

Governmental Activities

	<u>General Obligation Bonds</u>		<u>Special Assessment Bond</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 210,000	\$ 98,534	\$ 70,000	\$ 18,445
2005	220,000	89,107	75,000	14,820
2006	230,000	79,165	80,000	10,845
2007	240,000	68,726	80,000	6,625
2008	250,000	57,770	85,000	2,253
2009-2013	1,125,000	108,470	0	0
2014-2018	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Totals	<u>\$ 2,275,000</u>	<u>\$ 501,772</u>	<u>\$ 390,000</u>	<u>\$ 52,988</u>

	<u>Notes and Leases</u>		<u>Total Issued Debt</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 140,827	\$ 146,308	\$ 420,827	\$ 263,287
2005	123,506	136,573	418,506	240,500
2006	131,897	128,183	441,897	218,193
2007	92,831	119,335	412,831	194,686
2008	87,658	112,434	422,658	172,457
2009-2013	570,828	429,629	1,695,828	538,099
2014-2018	<u>700,434</u>	<u>133,879</u>	<u>700,434</u>	<u>133,879</u>
Totals	<u>\$ 1,847,981</u>	<u>\$ 1,206,341</u>	<u>\$ 4,512,981</u>	<u>\$ 1,761,101</u>

Business-Type Activities

	<u>Revenue Bonds</u>		<u>Notes Payable</u>	
	<u>Major Enterprise Fund</u>		<u>Major Enterprise Fund</u>	
	<u>Water and Sewer</u>		<u>Water and Sewer</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2004	\$ 300,000	\$ 63,360	\$ 268,071	\$ 125,452
2005	310,000	50,816	278,211	115,314
2006	330,000	35,575	288,775	104,750
2007	165,000	27,221	299,747	93,777
2008	175,000	19,952	311,145	84,380
2009-2013	370,000	16,455	1,642,460	225,310
2014-2018	0	0	374,994	46,510
2019-2023	<u>0</u>	<u>0</u>	<u>168,220</u>	<u>6,968</u>
	<u>\$ 1,650,000</u>	<u>\$ 213,379</u>	<u>\$ 3,631,623</u>	<u>\$ 802,461</u>

Note 7. LONG-TERM DEBT – continued

Business-Type Activities

	Notes Payable Civic Center Building		Total Issued Debt	
	Principal	Interest	Principal	Interest
2004	\$ 305,000	\$ 303,410	\$ 873,071	\$ 492,222
2005	320,000	299,297	908,211	465,427
2006	330,000	290,548	948,775	430,873
2007	345,000	281,447	809,747	402,445
2008	290,000	271,823	776,145	376,155
2009-2013	1,680,000	1,187,475	3,692,460	1,429,240
2014-2018	2,130,000	818,860	2,504,994	865,370
2019-2023	<u>2,130,000</u>	<u>258,875</u>	<u>2,298,220</u>	<u>265,843</u>
Total	<u>\$ 7,530,000</u>	<u>\$ 3,711,735</u>	<u>\$12,811,623</u>	<u>\$ 4,727,575</u>

The revenues of the gas system are pledged as the primary source of retirement funds for the City's General Obligation Refunding Bonds. Also see Note 5.

During 2000, the City issued a \$500,000 non-interest bearing note, due in 2015, to the State of Mississippi. \$191,815 of the initial proceeds were used to purchase U.S. Treasury strips maturing 2014 and placed in an irrevocable trust with an escrow agent to provide for all future debt service payments on the note. As a result, the note is considered defeased and no liability is reflected by the City. The balance of the proceeds was used in the construction of the incubator facility. At September 30, 2003, the balance of the defeased debt was \$500,000.

Note 8. INTERFUND TRANSACTIONS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources. Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and assets acquisitions, or maintaining debt service on a routine basis. Resources are accumulated in a fund or component unit to support and simplify the administration of various projects or programs. The governmental and business type funds financial statements generally reflect such transactions as transfers.

Balances at September 30, 2003, were:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 893,955	\$ 126,308
Non-major governmental funds	815,736	1,537,148
Water and Sewer fund	425,213	378,072
Gas fund	78,207	628,065
Civic Center fund	460,472	17,888
Non-major business-type funds	<u>13,898</u>	<u>0</u>
	<u>\$ 2,687,481</u>	<u>\$ 2,687,481</u>

Note 8. INTERFUND TRANSACTIONS- continued

Individual fund interfund receivable and payable balances at September 30, 2003 arising from these transactions were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General fund	\$ 48,938	\$ 250,594
Non-major governmental funds	0	55,616
Water and sewer fund	47,731	619
Gas fund	98,670	14,985
Civic Center fund	131,247	0
Non-major business-type funds	<u>33,110</u>	<u>37,882</u>
	<u>\$ 359,696</u>	<u>\$ 359,696</u>

The government-wide statement of activities eliminate transfers as reported within the segregated governmental and business-type activities columns. Only transfers *between* the two columns appear in this statement.

Note 9. DEFINED BENEFIT PENSION PLAN

Plan Description – The City of Batesville contributes to the Public Employees’ Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issued a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, MS 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy – PERS members are required to contribute 7.25% of their annual covered salary and City of Batesville is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Batesville’s contributions to PERS for the years ending September 30, 2003, 2002, and 2001 were \$338,798, \$311,536, and \$217,749, respectively, equal to the required contributions for each year.

Note 10. OPERATING LEASES

The City periodically leases various equipment on monthly or as-needed basis; but has no long-term, non-cancellable leases. Rental expense for 2003 was:

General Fund	\$	35,942
Water and Sewer fund		45,501
Gas fund		8,775
Civic Center fund		<u>1,390</u>
	\$	<u>91,608</u>

Note 11. COMMITMENTS AND CONTINGENCIES

The City is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City, after consultation with counsel, that resolution of these matters will not have a material adverse effect on the financial condition of the government.

In the normal course of operations, the City receives grant funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

As addressed in Note 1, the City guarantees the servicing of the new hospital's bond issue up to \$100,000 annually.

As addressed in Note 6, the City has several expansion programs in progress that require commitment of the City's financial resources.

Note 12. CORRECTION OF ERROR

During 2003, it was determined that \$90,679 in expenses had failed to be accrued by the Gas fund. As a result, the change in net assets and ending net assets for 2002 were overstated.

CITY OF BATESVILLE
GENERAL FUND
STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
YEAR ENDED SEPTEMBER 30, 2003

	Original 2003 Budget	Increase (Decrease)	Amended 2003 Budget	Total Actual	Favorable (Unfavorable) Variance
RECEIPTS					
Property Taxes	\$ 1,621,000	\$ (191,000)	\$ 1,430,000	\$ 1,637,580	\$ 207,580
Court Fines and Bonds	2,100	(100)	2,000	1,628	(372)
Fire Protection	37,500	0	37,500	40,067	2,567
In Lieu of Taxes	291,000	0	291,000	250,892	(40,108)
Interest Earned	14,000	2,000	16,000	19,331	3,331
Licenses	67,000	0	67,000	71,137	4,137
Park and Recreation Fees	30,000	(5,000)	25,000	24,251	(749)
Permits	54,600	5,400	60,000	101,417	41,417
Police Fines	293,000	(11,000)	282,000	267,798	(14,202)
Refunds and Rebates	87,000	(6,000)	81,000	81,614	614
State of MS – Sales Tax	2,700,000	300,000	3,000,000	3,036,317	36,317
State of MS – Streets	11,000	0	11,000	10,373	(627)
Taxes – Franchise	188,000	2,000	190,000	195,595	5,595
Taxes – Road	240,000	(14,000)	226,000	244,068	18,068
Rents and Miscellaneous	98,400	212,900	311,300	48,397	(262,903)
Grants	<u>294,300</u>	<u>1,010,700</u>	<u>1,305,000</u>	<u>122,415</u>	<u>(1,182,585)</u>
Total receipts	<u>6,028,900</u>	<u>1,305,900</u>	<u>7,334,800</u>	<u>6,152,880</u>	<u>(1,181,920)</u>
EXPENDITURES					
General:					
Personnel Services	455,000	7,000	462,000	440,860	21,140
Supplies	30,500	(500)	30,000	15,409	14,591
Other Services and Charges	555,400	(29,400)	526,000	342,451	183,549
Capital Outlay	<u>60,000</u>	<u>0</u>	<u>60,000</u>	<u>9,416</u>	<u>50,584</u>
	<u>1,100,900</u>	<u>(22,900)</u>	<u>1,078,000</u>	<u>808,136</u>	<u>269,864</u>
Police Department:					
Personnel Services	2,069,000	1,000	2,070,000	1,736,291	333,709
Supplies	138,500	1,500	140,000	96,396	43,604
Other Services and Charges	677,800	100,200	778,000	688,887	89,113
Capital Outlay	360,000	10,000	370,000	220,285	149,715
Debt Retirement	<u>62,000</u>	<u>1,200</u>	<u>63,200</u>	<u>27,055</u>	<u>36,145</u>
	<u>3,307,300</u>	<u>113,900</u>	<u>3,421,200</u>	<u>2,768,914</u>	<u>652,286</u>

continued

CITY OF BATESVILLE
GENERAL FUND
STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-continued
YEAR ENDED SEPTEMBER 30, 2003

	Original 2003 Budget	Increase (Decrease)	Amended 2003 Budget	Total Actual	Favorable (Unfavorable) Variance
City Code:					
Personnel Services	\$ 158,000	\$ (12,000)	\$ 146,000	\$ 134,561	\$ 11,439
Supplies	5,300	6,700	12,000	9,999	2,001
Other Services and Charges	34,900	9,100	44,000	23,801	20,199
Capital Outlay	<u>15,000</u>	<u>0</u>	<u>15,000</u>	<u>1,296</u>	<u>13,704</u>
	<u>213,200</u>	<u>3,800</u>	<u>217,000</u>	<u>169,657</u>	<u>47,343</u>
City Court:					
Personnel Services	111,400	(3,400)	108,000	95,984	12,016
Supplies	4,400	600	5,000	3,772	1,228
Other Services and Charges	35,300	1,700	37,000	32,227	4,773
Capital Outlay	<u>16,300</u>	<u>(300)</u>	<u>16,000</u>	<u>5,947</u>	<u>10,053</u>
	<u>167,400</u>	<u>(1,400)</u>	<u>166,000</u>	<u>137,930</u>	<u>28,070</u>
Fire Department:					
Personnel Services	545,000	0	545,000	509,525	35,475
Supplies	44,200	(4,200)	40,000	23,071	16,929
Other Services and Charges	126,600	19,400	146,000	121,581	24,419
Capital Outlay	370,000	(5,000)	365,000	24,599	340,401
Debt Retirement	<u>5,400</u>	<u>(5,400)</u>	<u>0</u>	<u>0</u>	<u>0</u>
	<u>1,091,200</u>	<u>4,800</u>	<u>1,096,000</u>	<u>678,776</u>	<u>417,224</u>
Street Maintenance:					
Personnel Services	580,000	2,000	582,000	575,651	6,349
Supplies	77,500	(500)	77,000	54,275	22,725
Other Services and Charges	181,500	(8,500)	173,000	172,452	548
Capital Outlay	345,000	615,000	960,000	939,582	20,418
Debt Retirement	<u>34,200</u>	<u>800</u>	<u>35,000</u>	<u>34,274</u>	<u>726</u>
	<u>1,218,200</u>	<u>608,800</u>	<u>1,827,000</u>	<u>1,776,234</u>	<u>50,766</u>

continued

CITY OF BATESVILLE
GENERAL FUND
STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-continued
YEAR ENDED SEPTEMBER 30, 2003

	Original 2003 Budget	Increase (Decrease)	Amended 2003 Budget	Total Actual	Favorable (Unfavorable) Variance
Public Health and Sanitation:					
Personnel Services	\$ 116,000	\$ 2,000	\$ 118,000	\$ 121,599	\$ (3,599)
Supplies	22,100	2,900	25,000	13,953	11,047
Other Services and Charges	29,900	100	30,000	27,503	2,497
Capital Outlay	<u>4,100</u>	<u>(100)</u>	<u>4,000</u>	<u>0</u>	<u>4,000</u>
	<u>172,100</u>	<u>4,900</u>	<u>177,000</u>	<u>163,055</u>	<u>13,945</u>
Parks and Recreation:					
Personnel Services	140,000	1,000	141,000	145,486	(4,486)
Supplies	28,200	(200)	28,000	18,426	9,574
Other Services and Charges	113,800	10,200	124,000	78,311	45,689
Capital Outlay	<u>93,000</u>	<u>248,000</u>	<u>341,000</u>	<u>9,908</u>	<u>331,092</u>
	<u>375,000</u>	<u>259,000</u>	<u>634,000</u>	<u>252,131</u>	<u>381,869</u>
Library:					
Personnel Services	110,000	0	110,000	113,167	(3,167)
Supplies	7,900	100	8,000	6,913	1,087
Other Services and Charges	89,500	14,500	104,000	81,281	22,719
Capital Outlay	0	68,000	68,000	40	67,960
Debt Retirement	<u>30,300</u>	<u>24,700</u>	<u>55,000</u>	<u>54,225</u>	<u>775</u>
	<u>237,700</u>	<u>107,300</u>	<u>345,000</u>	<u>255,626</u>	<u>89,374</u>
Total Expenditures	<u>7,883,000</u>	<u>1,078,200</u>	<u>8,961,200</u>	<u>7,010,459</u>	<u>1,950,741</u>
Excess (Expenditures)	<u>(1,854,100)</u>	<u>227,700</u>	<u>(1,626,400)</u>	<u>(857,579)</u>	<u>768,821</u>

continued

CITY OF BATESVILLE
GENERAL FUND
STATEMENT OF RECEIPTS, EXPENDITURES AND CHANGES IN FUND
BALANCE-BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)-continued
YEAR ENDED SEPTEMBER 30, 2003

	Original 2003 Budget	Increase (Decrease)	Amended 2003 Budget	Total Actual	Favorable (Unfavorable) Variance
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	\$ 900,200	\$ 823,000	\$ 1,723,200	\$ 1,124,068	\$ (599,132)
Interfund transfers (out)	(22,800)	1,276,120	(1,298,920)	(157,001)	1,141,919
Bond and note proceeds	<u>100,000</u>	<u>627,400</u>	<u>727,400</u>	<u>68,952</u>	<u>(658,448)</u>
Net other financing sources (uses)	<u>977,400</u>	<u>174,280</u>	<u>1,151,680</u>	<u>1,036,019</u>	<u>(115,661)</u>
Excess (deficiency) of receipts and other sources over (under) expenditures and other uses	(876,700)	401,980	(474,720)	178,440	653,160
Fund balance, beginning	<u>1,204,492</u>	<u>0</u>	<u>1,204,492</u>	<u>1,204,492</u>	<u>0</u>
Fund balance, ending	<u>\$ 327,792</u>	<u>\$ 401,980</u>	<u>\$ 729,772</u>	1,382,932	<u>\$ 653,160</u>
Adjustments to GAAP basis:					
Accrued revenues				(214,925)	
Accounts payables paid after October				(29,980)	
Other				<u>(5,501)</u>	
Fund balance, ending (GAAP basis)				<u>\$ 1,132,526</u>	

CITY OF BATESVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CDFA Number</u>	<u>Pass through Entity Identifying Number</u>	<u>Federal Expenditures</u>
Federal Emergency Management Agency:			
Assistance to Firefighter Grant	83.554	EMW-2002-FG -02091	\$ <u>73,466</u>
U.S. Department of HUD:			
Passed Through Mississippi Department of Economic and Community Development			
Community Development Block Grant/Small Cities Program	14.219	1113-96-111- SELF-01	201,077
	14.219	1118-01-111- SELF-01	<u>466</u>
			201,543
Community Development Block Grant/State's Program	14.228	00-111-ED- 1F-02	<u>17,100</u>
			<u>218,643</u>
U.S. Department of Justice:			
Community Oriented Policing Services In Schools Grant Program	16.710	2000SHWX0059	64,602
Bulletproof Vest Partnership Grant	16.607	01008011	1,267
Local Law Enforcement Block Grants Program	16.592	2002-LB-BX- 2452	<u>2,200</u>
			<u>68,069</u>
U. S. Department of the Treasury:			
Gang Resistance Education and Training	21.053	ATC020132	<u>7,297</u>
Total Expenditures of Federal Awards			\$ <u>367,475</u>

CITY OF BATESVILLE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - continued
FOR THE YEAR ENDED SEPTEMBER 30, 2003

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is a summary of the activity of the City's federal award programs presented on the accrual basis of accounting in accordance with generally accepted accounting principles. The reconciliation to the cash basis is:

<u>CFDA Number</u>	<u>Cash Basis</u>	<u>Beginning Payables</u>	<u>Ending Payables</u>	<u>Accrual Basis</u>
83.554	\$ 72,534	\$ 0	\$ 932	\$ 73,466
14.219	30,196	(6,500)	177,381	201,077
14.219	0	0	466	466
14.228	0	0	17,100	17,100
14.228	17,132	(17,132)	0	0
16.710	93,315	(28,713)	0	64,602
16.607	4,055	(2,788)	0	1,267
16.592	2,200	0	0	2,200
21.053	<u>9,145</u>	<u>(5,213)</u>	<u>3,365</u>	<u>7,297</u>
	<u>\$ 228,577</u>	<u>\$ (60,346)</u>	<u>\$ 199,244</u>	<u>\$ 367,475</u>

CITY OF BATESVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of City of Batesville, Mississippi.
2. One reportable condition disclosed during the audit of the financial statements is reported in the independent auditors' report on internal control over financial reporting based on an audit of financial statements performed in accordance with *Government Auditing Standards*. The condition is not reported as a material weakness.
3. No instances of noncompliance material to the financial statements of City of Batesville, Mississippi were disclosed during the audit.
4. One reportable condition was disclosed during the audit of internal control over major federal award programs. The condition is not reported as a material weakness.
5. The auditors' report on compliance for the major federal award programs for City of Batesville, Mississippi expresses an unqualified opinion on all major federal programs.
6. There were no audit findings relative to the major federal award programs for City of Batesville, Mississippi required to be reported in accordance with Section 510(a) of Circular A-133.
7. The program tested as major programs were:

<u>Name</u>	<u>CFDA Number</u>
Community Development Block Grant-Small Cities Program	14.219

8. The threshold for distinguishing type A and B programs was \$300,000.
9. City of Batesville, Mississippi was not determined to be a low-risk auditee.

CITY OF BATESVILLE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS -continued
FOR THE YEAR ENDED SEPTEMBER 30, 2003

B. FINANCIAL STATEMENTS FINDINGS

Reportable Condition:

2003-1 Construction Contracts:

Condition: The city engineer and Board failed to address change orders to construction and engineering contracts. As a result, the amounts paid to contractors and engineers exceeded the contracted amounts in two instances.

Criteria: Contracts for goods and services are used to effectively manage costs and financial resources.

Effect: The actual expenditures exceeded the amounts of contracts that resulted from compliance with bid law requirements.

Recommendation: Costs should be compared to the contracted amounts on a more timely basis and contracts should be formally amended prior to the incurrence of any additional costs.

Response: We agree with the finding. A greater effort will be made to formalize contract amendments approved by the Board.

C. FEDERAL AWARD FINDING AND QUESTIONED COSTS

U. S. Department of H.U.D.

2003-2 Community Development Block Grant-State's Program – CFDA No.14.228;
Grant No. 00-111-ED-1F-02

Reportable Condition:

The reportable condition at Finding 2003-1 also applies to this grant.

CITY OF BATESVILLE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

U.S. Department of H.U.D.

Finding 2002-4 Community Development Block Grant-State's Program –
CFDA No. 14.228; Grant No. 00-111-ED-1F-02

The recommendations were adopted in 2003. No similar findings were noted in the 2003 audit.

WILLIAM H. POLK & CO.
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DIVISION FOR CPA FIRMS PRIVATE COMPANIES PRACTICE SECTION

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Board of Aldermen
City of Batesville, Mississippi

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Batesville, Mississippi, as of and for the year ended September 30, 2003, which collectively comprise the City of Batesville, Mississippi's basic financial statements and have issued our report thereon dated March 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Batesville, Mississippi's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted an instance of noncompliance that we have reported in the separate report on compliance with the office of the state auditor.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Batesville, Mississippi's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect City of Batesville, Mississippi's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2003-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the City Board, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Wm. H. Polk & Co.

March 10, 2004

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DIVISION FOR CPA FIRMS PRIVATE COMPANIES PRACTICE SECTION

INDEPENDENT AUDITORS= REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133

Honorable Mayor and Board of Aldermen
City of Batesville, Mississippi

Compliance

We have audited the compliance of City of Batesville, Mississippi, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. City of Batesville, Mississippi=s major federal programs are identified in the summary of auditor=s results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Batesville, Mississippi=s management. Our responsibility is to express an opinion on City of Batesville, Mississippi=s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Batesville, Mississippi=s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Batesville, Mississippi=s compliance with those requirements.

In our opinion, City of Batesville, Mississippi, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

Internal Control Over Compliance

The management of City of Batesville, Mississippi is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Batesville, Mississippi=s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect City of Batesville, Mississippi=s ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 2003-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe that the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the City Board, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Wm. H. Polk & Co.

March 10, 2004

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE
REQUIREMENTS OF THE OFFICE OF THE STATE AUDITOR, AS
SET FORTH IN THE MUNICIPAL COMPLIANCE QUESTIONNAIRE

Honorable Mayor and Board of Aldermen
City of Batesville, Mississippi

We have audited the financial statements of City of Batesville, Mississippi as of and for the year ended September 30, 2003, and have issued our report thereon dated March 10, 2004.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of those procedures and our audit of the financial statements disclosed the following instance of noncompliance with state laws and regulations. Our findings and recommendations and your responses are as follows:

Finding: Code section 21-35B17 prohibits the board from approving any claims in excess of the final approved budget and the clerk is also prohibited from issuing warrants for the same claims. However, there were a few instances of fund expenditures exceeding the budgeted line-item amounts.

Recommendation: Greater care should be taken in reviewing the budgeted vs. actual comparisons, and amending the budget as circumstances require.

Response: We concur, and will take greater care in our budget amendment procedures.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended solely for the use of the City Board, management, and the Office of the State Auditor, and is not intended to be and should not be used by anyone other than these specified parties.

Wm. H. Polk & Co.

March 10, 2004